Economic and Budget Results for Fiscal 1995

AFTER RAPID ACCELERATION IN FISCAL 1994, economic growth slowed in fiscal 1995 to a rate more in line with steady, long-term trends consistent with low inflation. Despite the slower pace, job growth continued through the fiscal year, with over 2-1/2 million new jobs added. The unemployment rate remained within a very low 5.4 percent to 5.7 percent band. Inflation was well contained, with the underlying rate of inflation dropping below 3 percent over the fiscal year for the first time in 23 years. The Federal budget deficit continued to fall, declining by $39 billion in fiscal 1995 for a total drop of $127 billion over the past 3 fiscal years.

The Economy in Fiscal 1995

Real gross domestic product (GDP) grew by 2.0 percent across the four quarters of fiscal 1995, which encompasses the fourth quarter of calendar 1994 through the third quarter of calendar 1995. This was much slower than growth over the four quarters of fiscal 1994, when GDP expanded by 3.9 percent. That rate of growth had led to increased concerns about a possible speed-up in the rate of inflation, prompting the Federal Reserve Board to tighten monetary policy during the course of fiscal 1994 and on into fiscal 1995. The rate of economic growth dropped from 3.0 percent at an annual rate in the first quarter of fiscal 1995 to an average of just 0.6 percent in the next two quarters. Growth accelerated to a 3.8 percent pace by the final quarter of the fiscal year.

All sectors of the economy slowed in fiscal 1995, but the deceleration was most dramatic in housing. Residential construction (in real terms) had surged by 11.6 percent over the four quarters of the prior fiscal year after mortgage interest rates dropped to 25-year lows. As rates moved up and growth in jobs and income settled down, expansion of residential housing eased, and by the end of fiscal 1995, residential construction spending was 3.0 percent lower than at the end of fiscal 1994.

Consumer spending moderated in fiscal 1995 to a 2.4 percent increase from 3.0 percent in fiscal 1994, with most of the softness occurring in the second quarter of the fiscal year. Business investment spending also slowed over the fiscal year, especially in the second half. Growth in business fixed investment averaged 13.7 percent at an annual rate in the first two quarters of the fiscal year, but just 4.2 percent in the final two quarters.

Employment gains also moderated in fiscal 1995, but the economy still added more than 2-1/2 million new jobs. Most of those jobs were in the private service-producing sector, with especially strong growth in business services. Employment in manufacturing remained essentially flat over the fiscal year after growing by 330,000 in fiscal 1994. The unemployment rate stayed within a very narrow range of 5.4 percent to 5.7 percent over the course of fiscal 1995, the lowest rates of unemployment in 5 years. Broad measures of inflation remained very subdued in fiscal 1995. Consumer prices increased just 2.5 percent over the year, below the 3.0 percent rate of increase in fiscal 1994. Declining energy prices contributed to the lower rate, but underlying inflation was also well behaved. Excluding food and energy, the ‘‘core’’ rate of inflation dipped to 2.9 percent in fiscal 1995, the first time it went below 3.0 percent since 1972.

Growth in the first three quarters of fiscal 1996 started out weak but then picked up speed. The economy slowed to a 0.3 percent rate of growth in the first quarter of the 1996 fiscal year, but then accelerated rapidly over the next two quarters. Inflation in fiscal 1996 remains under control—higher energy prices at the beginning of the fiscal year have since receded. Over the next several quarters the economy is projected to resume a moderate growth rate consistent with its long-term potential.

Budget Results

The Federal budget deficit narrowed significantly in fiscal 1995, declining by $39 billion to $163.9 billion, the lowest in 6 years. After reaching an all-time high of $290.4 billion in fiscal 1992, the deficit has dropped by a total of $126.5 billion over the past 3 years. As a share of GDP, the deficit fell from 4.7 percent in fiscal 1992 to 2.3 percent in fiscal 1995, the lowest share since fiscal 1979.

The large improvement over the last 3 years resulted partly from passage of the President's Economic Plan in 1993 (the Omnibus Budget Reconciliation Act) and partly from the speed-up in economic growth since 1992. The 1993 Budget Act provided for $505 billion in total deficit reduction across the 5 years ending in fiscal 1998 from what otherwise would have occurred. That figure was about evenly split between revenue increases and curbs on growth of spending.

In fiscal 1995, growth of outlays was held to $58 billion, or 4.0 percent. That figure was held down a bit by a timing quirk in the calendar, which artificially boosted outlays in fiscal 1994, and by large asset sales in the deposit insurance account, which are counted as negative outlays. Excluding the timing differences and the outlays of the deposit insurance agencies, growth of outlays in fiscal 1995 was closer to 5.0 percent.

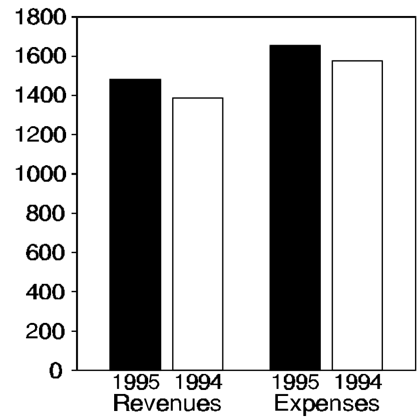
Outlays for defense continued to decline in fiscal 1995, down by $9-1/2 billion, or 3.4 percent. Along with lower defense spending, budget balance was also assisted by declines in farm support payments, resulting from strong farm prices, and in unemployment insurance benefits, reflecting lower unemployment. Net interest payments, in contrast, jumped by $29.2 billion, or 14.4 percent, in fiscal 1995 due to higher interest rates.

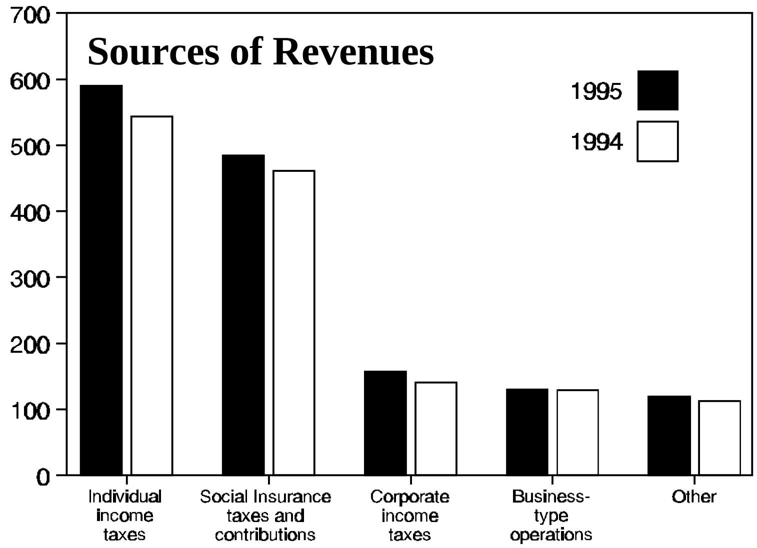
Receipts increased by 7.8 percent in the fiscal year, which was more than 3 percentage points faster than the rise in economic activity over the fiscal year, as measured by the nominal value of GDP. Growth of receipts in 1995 was led by an 11.8 percent advance in corporate income tax receipts, reflecting a strong gain in profits.

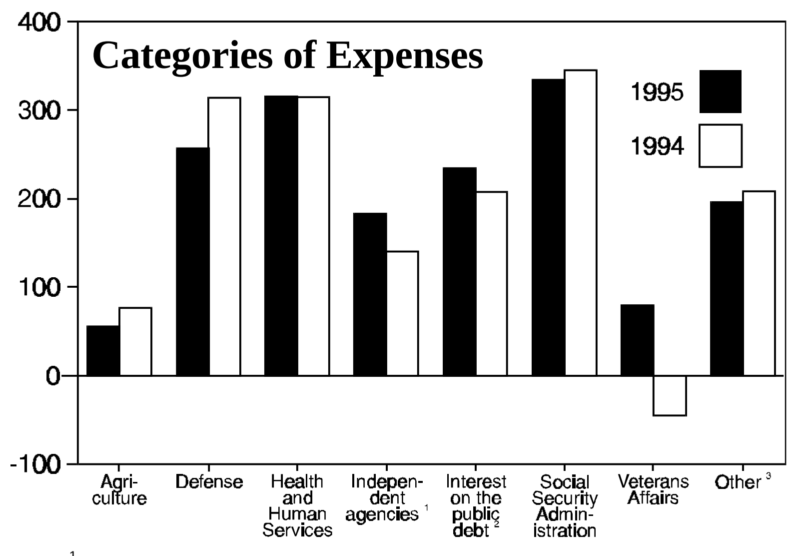
The deficit is on track to decline further in fiscal 1996. The fiscal 1996 deficit is expected to fall to $116.8 billion, $47 billion below the fiscal 1995 level. If realized, this would be the smallest deficit in 15 years. It would represent less than a 1.6 percent share of GDP, the lowest since fiscal 1974.

Revenues and Expenses

The graphs on this page show the amounts of the U.S. Government revenues and expenses for fiscal 1995 and 1994. The charts below show categories of revenues by source, and a breakdown of the Government's expenses by agency. Charts are in billions of dollars. All revenues levied under the Government's sovereign power are reported on the cash basis. Revenues earned through Government business-type operations and the data supporting the graph of expenses by agency are reported on the accrual basis.







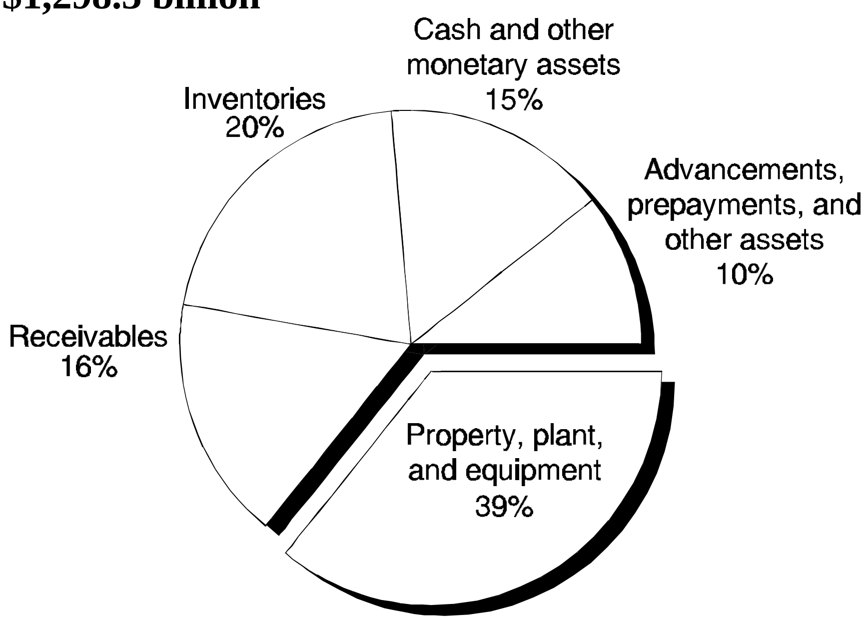
[1] Includes EPA, GSA, NASA, OPM, SBA, and other independent agencies.
[2] Does not include interest on investments held by Government agencies.
[3] Departmental agencies with expenses less than $50 billion.

FOR MORE INFORMATION SEE PAGE 12

Major Categories of Assets as of September 30, 1995

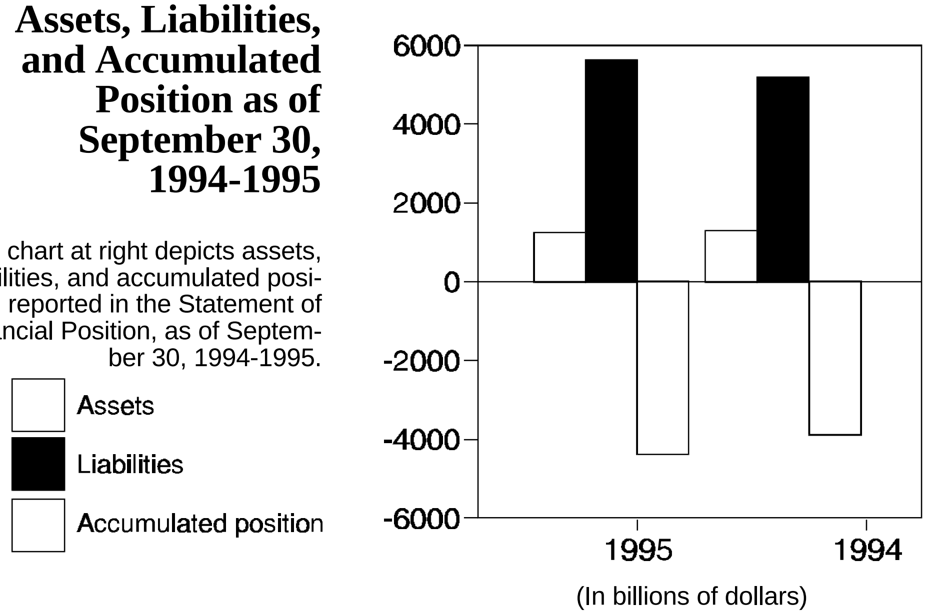
Assets are resources owned by or owed to the Federal Government that are available to pay liabilities or to provide future public services. The chart below is derived from the Statement of Financial Position (page 11). It depicts the major categories of assets as of September 30, 1995, as a percentage of total assets. The components for each of these categories are contained in Notes to Financial Statements.

Total Assets: $1,298.3 billion



Assets, Liabilities, and Accumulated Position as of September 30, 1994-1995

The chart at right depicts assets, liabilities, and accumulated position reported in the Statement of Financial Position, as of September 30, 1994-1995.

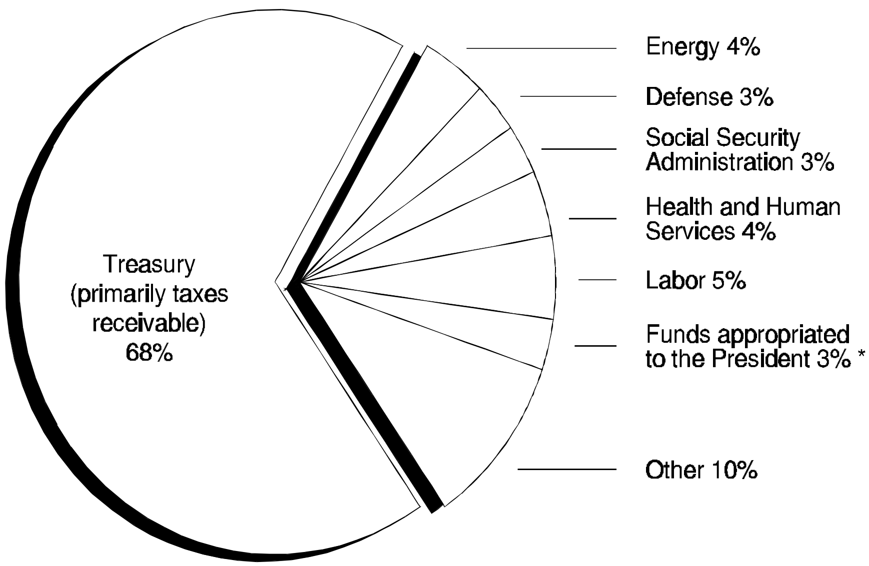


FOR MORE INFORMATION SEE PAGE 11

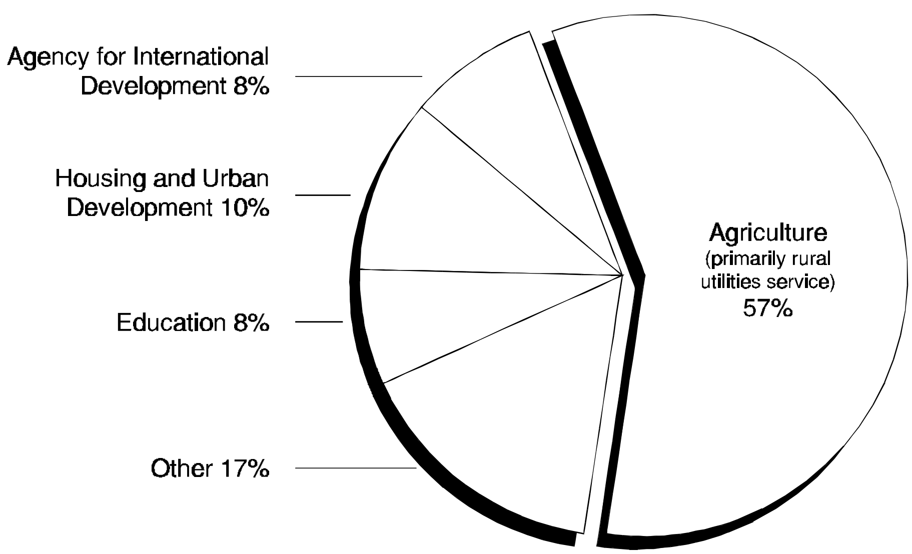
Gross Accounts and Loans Receivable as of September 30, 1995

The amounts in these graphs were derived from the agencies' adjusted trial balances (ATB) as reported on the Federal Agencies' Centralized Trial-Balance System (FACTS). These gross amounts, less allowances of $79.4 billion and $68.8 billion for accounts receivable and loans receivable, respectively, are included in the Statement of Financial Position on page 11.

Accounts Receivable Total: $166.6 billion



Loans Receivable Total: $189.6 billion



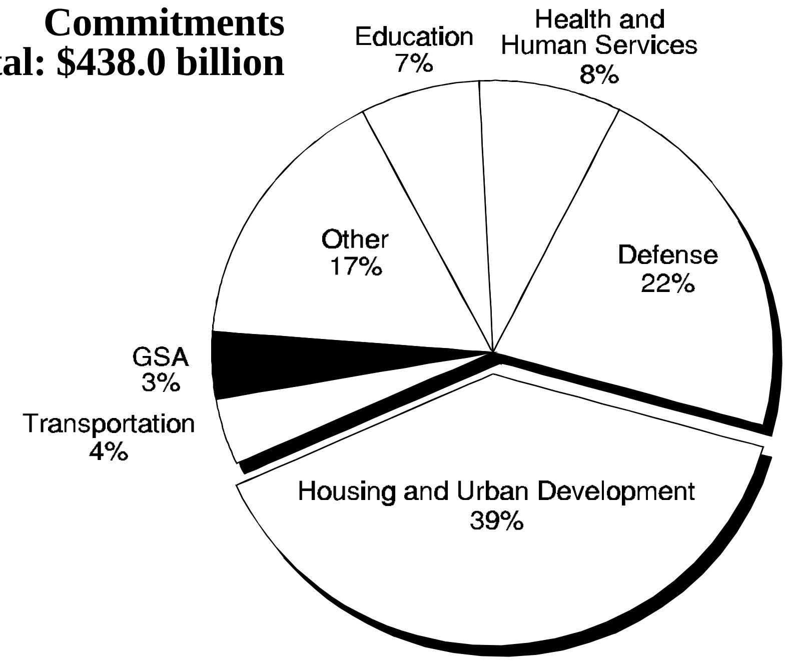
FOR MORE INFORMATION SEE PAGES 11,14

* Includes Executive Office of the President.

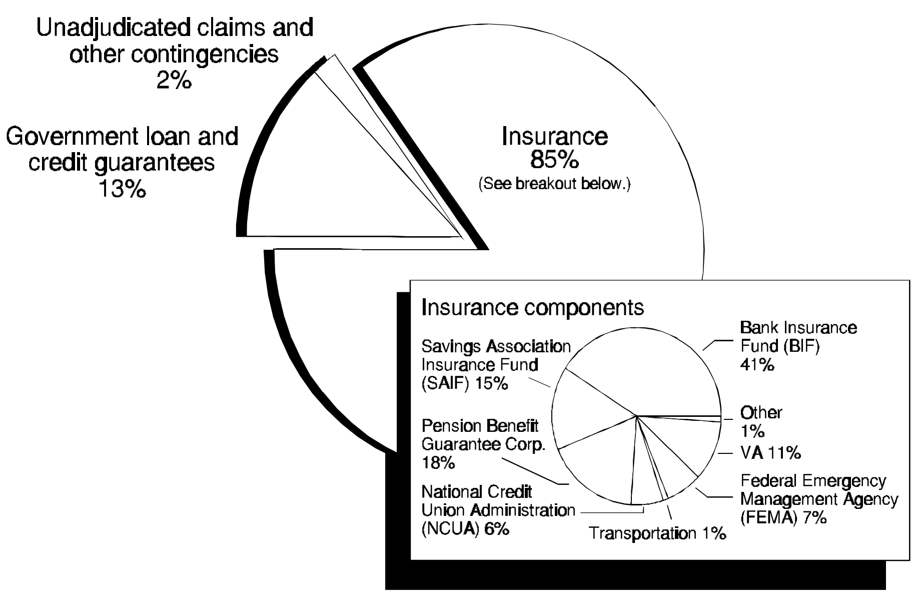
Commitments and Contingencies

For a breakdown of the figures illustrated in these charts, see Commitments and Contingencies of the United States Government for the Years Ended September 30, 1995 and 1994, on pages 26 and 27.

Commitments Total: $438.0 billion



Contingencies (at face value) Total: $5,419.5 billion



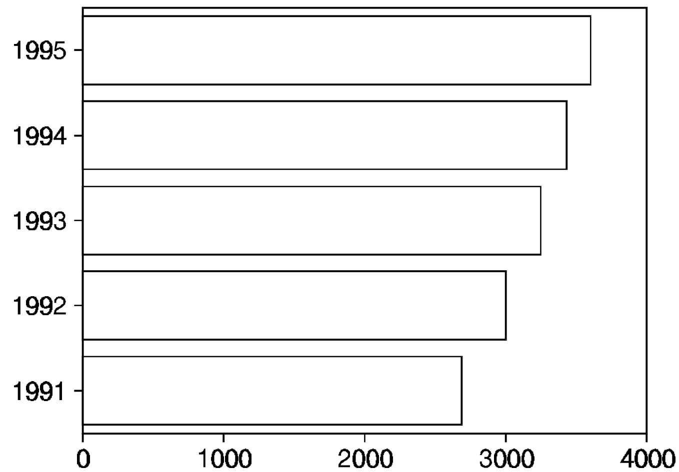
FOR MORE INFORMATION 26,27 SEE PAGES

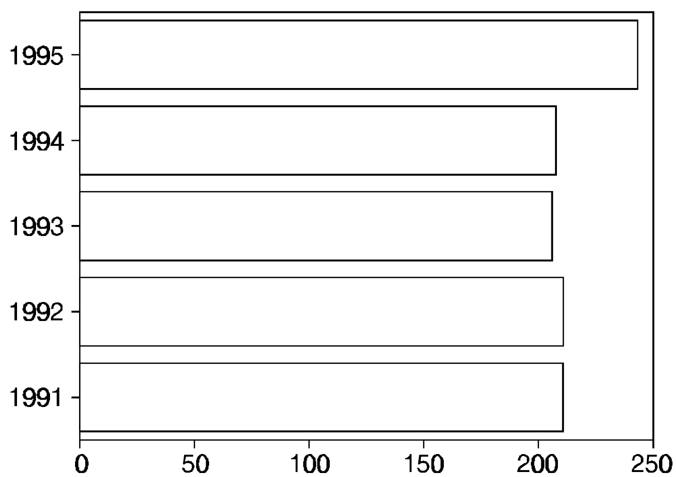
Federal Debt

The following charts represent different facets of the net Federal debt, excluding intragovernmental investments. For a breakdown of the Federal debt, see the tables on pages 18 and 19.

Federal Debt Held by the Public, Fiscal 1991-1995

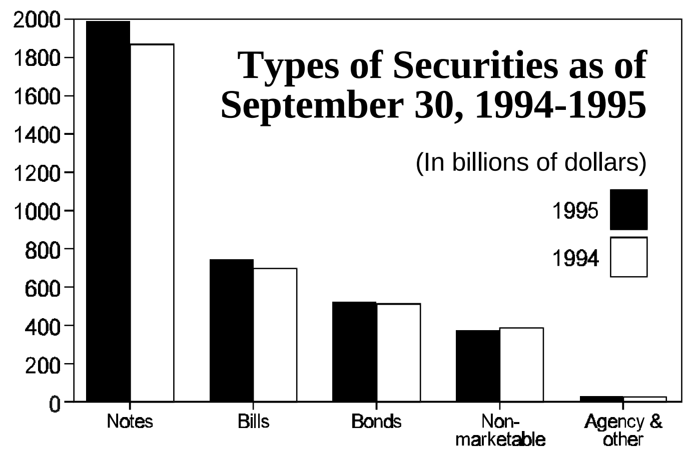
(In billions of dollars)





Interest Expense for Federal Debt Held by the Public, Fiscal 1991-1995

(In billions of dollars)



Types of Securities as of September 30, 1994-1995

(In billions of dollars)

FOR MORE INFORMATION SEE PAGES 11, 17-19